

**Fiscal Services Division**  
**Legislative Services Agency**  
**Fiscal Note**

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SF 2183 - Distribution Center Enterprise Zone (LSB 6466 SV.1)  
Analyst: Ron Robinson (Phone: [515] 281-6256) ([ron.robinson@legis.state.ia.us](mailto:ron.robinson@legis.state.ia.us))  
Fiscal Note Version – As Amended by H-8349

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**Description**

Senate File 2183, as Amended by H-8349, which strikes everything after the enacting clause, changes the date that designated enterprise zones expire from 10-years following certification to one-year following the designation of census tracts for the State as part of the 2010 census. The expiration will be approximately March of 2012.

The Bill eliminates the March 1, 2006, deadline for counties and cities to apply to the Department of Economic Development (DED) for an area to be certified as an enterprise zone.

The Bill decreases the required city population from 24,000, to at least three census tracts (approximately 12,000 people) with at least 50.0% of the population in each census tract located in the city, to designate a City Metropolitan Zone, if the zone meets two of the following distress criteria:

- The area has a per capita income of \$12,648 or less, based on the 2000 census.
- The area has a family poverty rate of 12.0% or higher, based on the 2000 census.
- Ten percent or more of the housing units are vacant in the area.
- The valuations of each class of property in the designated area is 75.0% or less of the citywide average for that classification based upon the most recent valuations for property tax purposes.
- The area is a blighted area.

As amended, Senate File 2183 creates a new type of enterprise zone (Transportation Zone) of up to four miles that a city with a population of approximately 12,000 or more can designate for areas located within four miles of at least three of the following:

- A commercial service airport.
- A barge terminal or a navigable waterway.
- Entry to a rail line.
- Entry to an interstate highway.
- Entry to a commercial and industrial highway network.

The Bill permits the Department of Economic Development to certify one enterprise zone (Mid-size Zone) every two-years in a city that includes at least two census tracts (approximately 8,000 people) with at least 50.0% of the population in each census tract located in the city. The zone is not required to meet any distress or blighted criteria and the size of the zone is not limited. The Bill does not specify how the city will be selected. The city will not be subject to the 1.0% of the county limitation.

Section 15E.192(3)(b), Code of Iowa, provides that the total area of all zones in a county, excluding any business closure areas, must not exceed 1.0% of the total county area. The Bill excludes the new city zones from the 1.0% calculation.

The Bill limits State awards to businesses located in all Transportation Zones certified prior to FY 2008 to \$25.0 million. The Bill also limits to \$25.0 million, State awards to businesses located in all Transportation Zones certified in each FY 2008, FY 2009, and FY 2010.

The Bill requires all awards to be used or expended by a business within two fiscal years of the year of the award. Current law, as provided by Section 15.333, Code of Iowa, requires the award of Investment Tax Credits to an eligible enterprise zone business to be amortized over five calendar years and permits the Credit to be carried forward for seven years.

### **Background**

An enterprise zone may be designated by a county (County Zone) which meets at least two of the following distress criteria:

- The county has an average weekly wage that ranks among the bottom 25 counties in the State based on the 2000 annual average weekly wage for employees in private business.
- The county has a family poverty rate that ranks among the top 25 counties in the State based on the 2000 census.
- The county has experienced a percentage population loss that ranks among the top 25 counties in the State between 1995 and 2000.
- The county has a percentage of persons 65 years of age or older that ranks among the top 25 counties in the State based on the 2000 census.

As of December 31, 2005, there were 784 designated enterprise zones in 40 counties and 17 counties with City Metropolitan Zones. There have been 437 awards including 161 business awards and 276 housing awards.

### **Assumptions**

1. The following 10 additional cities will now qualify to apply for a City Metropolitan Zone: Boone, Coralville, Fort Madison, Indianola, Keokuk, Knoxville, Muscatine, Newton, Oskaloosa, and Waverly.
2. The cities that will be eligible to apply for a Transportation Zone will include: Ames, Bettendorf, Burlington, Cedar Falls, Cedar Rapids, Clinton, Coralville, Council Bluffs, Davenport, Des Moines, Dubuque, Fort Dodge, Fort Madison, Iowa City, Keokuk, Marion, Mason City, Muscatine, Sioux City, Urbandale, Waterloo, and West Des Moines. The cities will not be subject to the 1.0% of the county limitation. A home or multiple dwelling housing business is not eligible for awards in a Transportation Zone.
3. The following cities that would qualify under the Bill for a Transportation Zone that do not currently qualify for any type of enterprise zone: Coralville, Fort Madison, Keokuk, and Muscatine. The following cities are currently restricted by the 1.0% county limitation: Cedar Falls, Des Moines, Mason City, and Waterloo.
4. There are 33 cities that have the required two census tracts for a Mid-size Zone, with seven of them located in counties that qualify for a County Zone. There are 28 counties that qualify for a County Zone.
5. The 22 cities that are eligible as both a Transportation Zone and a City Metropolitan Zone will utilize only the Transportation Zone for business projects which are not subject to the 1.0% county limitation, and the total of 31 cities that are eligible for a City Metropolitan Zone will continue to use them for housing projects.
6. Project awards for Transportation Zones will be made during the first half of the fiscal year, permitting the project to utilize four calendar years of the five year amortized Investment Tax Credit.

7. Transportation Zone Business projects will average the same annual awards for eligible cities as the current City Metropolitan Zones, resulting in annual awards totaling \$16.5 million for the 22 cities in the Transportation Zones. The awards will be issued during the year that a zone is certified.
8. The extension of the deadline for counties to apply for an enterprise zone will not have a significant fiscal impact.
9. Currently City Metropolitan Zones represent approximately \$20.3 million in business (\$15.7 million) and housing (\$4.6 million) awards annually for 21 eligible cities. The Bill will qualify an additional 10 cities in the City Metropolitan Zones, and with 22 of the 31 eligible cities using the Transportation Zones, the net result will be nine cities using the City Metropolitan Zones for business projects.
10. Due to the time needed to establish new zones, approve projects, and begin operations, the first project awards would not be exercised until FY 2008.
11. The average award for an enterprise zone business project is \$1.4 million and 89.0% of that amount is for Investment Tax Credits and is to be amortized over five-years.
12. The average cost of an enterprise zone housing project award is \$183,000.
13. The 1.0% county limitation will not impact the City Metropolitan Zone cities utilization of a zone for housing projects.
14. A Mid-size City Zone will receive a business award in every other year and a housing award every year.
15. A project does not take place in every enterprise zone.
16. All awards will be exercised.
17. No specific project was used in the estimate.

### **Fiscal Impact**

Senate File 2183, as Amended by H-8349, is estimated to reduce State General Fund revenue as follows:

- \$21.2 million in FY 2008
- \$25.0 million in FY 2009
- \$30.5 million in FY 2010
- \$31.1 million in FY 2011
- \$32.7 million in FY 2012

Insufficient information is available to determine if any specific project would have a fiscal impact in FY 2007. In order for a project to have fiscal impact on FY 2007, a zone would have to be applied for, certified by the DED, the eligible business would have to have the project approved, begin construction, and have their tax year end during FY 2007 in time for a sales and use tax refund to be issued during FY 2007.

The fiscal impact does not include an adjustment for "indirect" impacts on State or local revenue. Both positive and negative indirect impacts are possible. Positive indirect impacts may include employees expending salary dollars within the State and growth in other businesses created and expanded to meet the needs of the new business. Negative indirect impacts may include the effect of the new business on other Iowa businesses when competing for labor, capital, and sales, as well as the additional demand for schools, roads, police and fire protection, and other government services that necessarily result from higher levels of employment and population.

**Source**

Department of Economic Development

/s/ Holly M. Lyons

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March 28, 2006

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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